CORRIGAN FINANCIAL, INC.

Market Update: July 2023

Global stock markets gained over 3% in July and have now registered gains of just over 18% year-to-date. Large U.S. stocks, as measured by the S&P 500 Index, are up 20% so far this year … the best performance through the first seven months of a year since 1997.

While market gains for July were widely distributed, the majority of this year's gains have been delivered by technology stocks. In particular, excitement over artificial-intelligence has helped the Nasdaq Composite Index advance 37%, its best performance through the first seven months of the year since 1975.

> **Stocks have benefited from solid corporate earnings, exuberance about artificial intelligence, cooling inflation growth, reduced volatility, positive economic data, increased confidence in a 'soft landing' and the assumption that the Fed is at or near the end of its tightening cycle.**
>
> **Greg Bartalos – Barron's 8/1/23**

The markets have been on quite a run since the fourth quarter of 2022. Over that 10-month period, domestic and foreign equities are up 29% and 30%, respectively. *Yes, foreign stocks have actually outperformed over this period.* Valuations, however, are starting to look a little stretched. The S&P 500 currently trades at a multiple of nearly 20 times projected earnings over the next 12 months … up from a multiple of 17 at the beginning of the year and above historical averages.

> **There's not a lot of leeway for bad news right now in equities.**
>
> **Mike Mullaney, Boston Partners – WSJ 7/25/23**

The Federal Reserve increased its benchmark rate by a quarter-percentage point in July. That marks the 11th increase since March 2022 and raises the rate to a range between 5.25% and 5.5%. Quite a bit of consumer debt, however, is still being carried at lower yields. That has allowed many households to continue spending. Moody's Analytics estimates that only 11% of outstanding household debt is directly impacted by Fed hikes.

> **We think this will be the last hike, because inflation will continue to slow and the labor market will soften. But the economy has continued to defy expectations of such a slowing for a year, creating a risk that the Fed lifts rates again.**
>
> **Matthew Luzzetti, Deutsche Bank – WSJ 7/26/23**

The U.S. economy has certainly been resilient. Gross domestic product (GDP) grew 2.4% at a seasonally adjusted annual rate in the second quarter. That exceeded expectations and was above the 2% GDP rate achieved during the first quarter.

> **Economic expansions don't die of old age, economists like to say; they are murdered by the Federal Reserve.**
>
> **Greg Ip – WSJ 7/27/23**

Consumer spending, while down somewhat from the first quarter, was still relatively strong in the second quarter. Private investment was the major driver of second quarter growth, as nonresidential fixed investment grew 7.7% at an annualized rate. (*Some of this surge can be attributed to federal spending on chip-manufacturing plants and electric vehicle factories.*) Overall, private investment contributed practically a full percentage point to GDP, and it's an investment that has the potential to increase productivity and create jobs in the future.

To the extent higher rates are pulling capital out of unproductive uses and creating incentives to save and invest rather than spend, the GDP report shows how to reduce inflation without causing a recession.

The Editorial Board – WSJ 7/27/23

Inflation, according to the Fed's preferred gauge, increased 3% in June from a year earlier. And for the first time in two years, Americans saw their wages increase faster than inflation. The Labor Department reported that inflation-adjusted hourly wages rose 1.2% in June from a year earlier.

We've seen, so far, the beginnings of disinflation without any real costs in the labor market. And that's a good thing.

Fed Chairman Jerome Powell – WSJ 7/29/23

U.S. employers added 209,000 jobs in June, the smallest gain since late 2020. Job openings declined to a seasonally adjusted 9.6 million in June, down from a record 12 million in March 2022. Still, openings remain well above prepandemic levels and exceed the six million people currently looking for work.

Still-strong demand for U.S. workers has coincided with 12 months of declining inflation. That combination has strengthened optimism that the U.S. can tame inflation without suffering a recession.

Christian Robles – WSJ 8/1/23

China's economy continues to struggle, as leading economic indicators for manufacturing and services activity were weak in July. While the rest of the world battles inflation, China is actually seeing deflationary pressures. Add in high youth unemployment and the ongoing housing slowdown, and it appears the broader Chinese economy saw minimal growth at best during the second quarter.

> **China's string of disappointing economic statistics, and signs of waning confidence in everything from home values to employment prospects, suggest to other economists that after decades of continued expansion the country may be due for the kind of reckoning seen in other economies, including Japan in the 1990s.**
>
> **Stella Yifan Xie – WSJ 7/31/23**

In June, China's annual consumer-price inflation was zero, while producer prices fell by 5.4% from a year earlier. Industrial profits and average new home prices both showed declines in June. In early July, Beijing responded with a 31-point plan to help boost the private sector and improve business sentiment.

Given the high debt levels of many companies, local governments, and households, economists view this new plan with great skepticism. Household debt alone has surged to 1.5 times income … far above most developed countries, including the U.S.

> **In the 1990s, a collapse in stock markets and real-estate values in Japan pushed companies and households to drastically cut back spending to service burdensome debts – a so-called balance-sheet recession that some see taking shape in China today.**
>
> **Jason Douglas – WSJ 7/30/23**

According to the European Union's statistics agency, the currency area's economy grew at an annualized rate of 1.1% in the second quarter … a rebound from the mild recession of the previous two quarters. Manufacturing activity, however, is weakening around the world.

China's economic problems certainly impact the global economy, but many emerging market economies struggle with heavy debt burdens and rising interest rates. Russia's invasion of Ukraine continues to disrupt supply of food and energy around the world. On the bright side, headline inflation is on the decline and labor markets remain relatively strong.

> **While prospects are mixed in the near term, the medium-term outlook for the global economy remains bleak.**
>
> **Kristalina Georgieva, Intl. Monetary Fund – WSJ 7/16/23**

The European Central Bank matched the Fed's 0.25 percentage point interest-rate increase in July. Also, in a surprise move, the Bank of Japan let the yield on the 10-year Japanese government bond rise to a nearly nine-year high.

> **The countdown is beginning toward the end of the Bank of Japan's decadelong radical monetary easing, although markets are divided about how many ticks are left on the clock.**
>
> **Megumi Fujikawa – WSJ 7/28/23**

It's well documented that most actively managed funds underperform in comparison to their benchmarks. In fact, a recent study found that over the past 30 years, 92.1% of active managers underperformed against their relative passive benchmark. The aggregate loss to investors: $235 billion!

Trying to time the markets continues to be a loser's game. Consider the current backdrop: bond markets are predicting a slowdown, but stocks are on the rise. Also, U.S. GDP is up, but Gross Domestic Income (GDI) is down ... two measures that technically should move in unison.

I’m confused. Contradictory economic gauges are telling different stories, standard leading indicators are in question, and markets appear to be prepping for both boom and bust.

James Mackintosh – WSJ 7/14/23

Yes, even for the market gurus, confusion is the default state. So, don’t be tempted to outguess the marketplace, it will only lead to poor outcomes. Successful outcomes are a product of a disciplined process.

Daniel G. Corrigan, CPA/PFS, CFP®